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TESCO MERCHANT SERVICES LIMITED
(Formerly Bookdaily Limited)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 36 WEEKS ENDED 24 FEBRUARY 2001



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TESCO MERCHANT SERVICES LIMITED

DIRECTORS' REPORT

The directors present their report on the affairs of the company, together with the financial statements and auditors' report for the 36 weeks ended 24 February 2001.

Principal activities

The principal activity of the company is to act as a financial services provider.

Change of name

On 19 September 2000 the company changed its name from Bookdaily Limited to Tesco Merchant Services Limited.

Review of business and future developments

The company was formed on 12 June 2000 and commenced trading 22 November 2000, since then the company has performed in line with group expectations and should continue to do so.

Results and dividends

The net profit of the company before tax for the period was £10,079,000.

No dividends were approved or paid during the period.

Directors and their interests

The following directors served during the period:

| | Appointed | Resigned |
|---------------------------|----------------|----------------|
| Instant Companies Limited | 12 June 2000 | 22 August 2000 |
| R S Ager | 22 August 2000 | |
| J A Bailey | 22 August 2000 | |

None of the directors had any disclosable interests in the company during the period.

R S Ager is also a director of Tesco PLC, the company's ultimate parent company, and as his disclosable interests in Tesco PLC are all declared in the financial statements of that company.

For the director as at 24 February 2001 who was not also a director of the ultimate parent company, their interest in the shares of Tesco PLC at the beginning and end of the period is given below:

| | Ordinary shares | | | Share options* | | |
|------------|-----------------|--------|---------|----------------|-----------|---------|
| | 2001 | 2000 | | Granted | Exercised | 2000 |
| J A Bailey | 28,021 | 30,836 | 101,110 | 30,978 | 48,504 | 108,336 |

* Executive share option scheme (1984, 1994 and 1996) and savings related share option scheme (1981). Details of these schemes are set out in the annual report and financial statements of Tesco PLC.

TESCO MERCHANT SERVICES LIMITED

DIRECTORS' REPORT (continued)

Directors' responsibilities

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 4 to 8 the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Euro

It is believed that the introduction of the euro will not impact the business now, or in the future.

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board on 11 December 2001

J A Bailey
Director



Tesco Merchant Services Limited
Registered Number 04012238

**INDEPENDENT AUDITORS' REPORT TO THE
SHAREHOLDER OF TESCO MERCHANT SERVICES
LIMITED**

PricewaterhouseCoopers
10 Bricket Road
St Albans AL1 3JX
Telephone +44 (0) 1727 844155
Facsimile +44 (0) 1727 845039

We have audited the financial statements on pages 4 to 8 which have been prepared under the historical cost convention, and the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on pages 1 and 2 of the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 24 February 2001 and of its profit for the 36 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
10 Bricket Road
St Albans
Herts
AL1 3JX

11 December 2001

TESCO MERCHANT SERVICES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE 36 WEEKS ENDED 24 FEBRUARY 2001

| | Note | 2001 £'000 |
|---|------|---------------|
| Sales | | 13,797 |
| Cost of Sales | | (3,725) |
| Gross Profit | | 10,072 |
| Administration Expenses | | (16) |
| Profit on Ordinary Activities Before Interest and Tax | | 10,056 |
| Interest receivable | | 23 |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | 2 | 10,079 |
| Tax on ordinary activities | 3 | (3,112) |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | 6,967 |
| Dividends | | - |
| RETAINED PROFIT FOR THE FINANCIAL PERIOD | 6 | 6,967 |

The company had no recognised gains or losses during the period other than those reflected in the profit and loss account above.

The notes on pages 6 to 8 form part of these financial statements.

TESCO MERCHANT SERVICES LIMITED

BALANCE SHEET AS AT 24 FEBRUARY 2001

| | Note | 2001 £'000 |
|---|------|---------------|
| CURRENT ASSETS | | |
| Debtors amounts due from group undertakings | | 27 |
| Cash at bank and in hand | | 15,038 |
| Cash in transit | | 71,430 |
| <hr/> | | |
| CREDITORS (amounts falling due within one year) | 4 | (69,528) |
| <hr/> | | |
| NET CURRENT ASSETS | | 16,967 |
| <hr/> | | |
| NET ASSETS | | 16,967 |
| <hr/> | | |
| CAPITAL AND RESERVES | | |
| Called up share capital | 5 | 10,000 |
| Profit and loss account | 6 | 6,697 |
| TOTAL SHAREHOLDER'S FUNDS | 7 | 16,697 |

Approved by the Board on 11 December 2001

J A Bailey
Director



The notes on pages 6 to 8 form part of these financial statements.

TESCO MERCHANT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 36 WEEKS ENDED 24 FEBRUARY 2001

1 ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared in accordance with applicable accounting standards, under the historical cost convention, and are in accordance with the Companies Act 1985. Group accounts have not been prepared because the company is a wholly owned subsidiary of a body corporate, incorporated in Great Britain.

In accordance with FRS1 (Revised), the company being the wholly owned subsidiary of another company which prepares a cash flow statement including the cash flows of this company, has not prepared such a statement itself.

In accordance with FRS2, consolidated financial statements are not prepared because the company is a wholly owned subsidiary of a body corporate, incorporated in Great Britain.

Group relief on taxation

Group relief is payable to group companies and is consequently shown as a charge in the profit and loss account.

2 OPERATING PROFIT

The Auditors' remuneration for the period was borne by other group companies.

The company had no employees during the period.

The directors did not receive any emoluments for their services to the company.

3 TAXATION

| | 2001 £'000 |
|-----------------------------|---------------|
| Corporation taxation at 30% | - |
| Group relief | 3,112 |
| | <hr/> 3,112 |

TESCO MERCHANT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 36 WEEKS ENDED 24 FEBRUARY 2001 (continued)

4 CREDITORS

| | 2001 £'000 |
|--------------------------------------|---------------|
| Amounts falling due within one year: | |
| Trade Creditors | 311 |
| Amounts due to group undertakings | 69,217 |
| | <hr/> 69,528 |

5 CALLED-UP SHARE CAPITAL

| | 2001 £'000 |
|---------------------------------------|---------------|
| Authorised: | |
| Equity: | |
| 10,000,000 Ordinary shares of £1 each | 10,000 |
| | <hr/> 10,000 |
| | |
| Allotted, issued and fully paid up: | |
| Equity: | |
| 10,000,000 Ordinary shares of £1 each | 10,000 |
| | <hr/> 10,000 |

TESCO MERCHANT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 36 WEEKS ENDED 24 FEBRUARY 2001 (continued)

6 PROFIT AND LOSS RESERVE

| | £'000 |
|---------------------------------|-------|
| Opening Profit and Loss Reserve | - |
| Retained profit for the period | 6,967 |
| At 24 February 2001 | 6,967 |

7 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

| | 2001 £'000 |
|-----------------------------|---------------|
| Opening shareholder's funds | - |
| Issue of ordinary shares | 10,000 |
| Profit for the period | 6,967 |
| Dividends | - |
| Closing shareholder's funds | 16,967 |

8 ULTIMATE PARENT UNDERTAKING

The immediate and ultimate parent company is Tesco PLC, which is incorporated in Great Britain and registered in England and Wales, and which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the group financial statements can be obtained from The Company Secretary, Tesco PLC, Tesco House, PO Box 18, Delamare Road, Cheshunt, Hertfordshire EN8 9SL.

9 RELATED PARTY TRANSACTIONS

Transactions with other companies within the group are not disclosed as the company has taken advantage of the exemption under Financial Reporting Standard 8 "Related Party Disclosures", as the consolidated financial statements of Tesco PLC, in which the company, is included are available at the address noted above.

10 CONTINGENT LIABILITY

The company is party to an unlimited composite joint and several guarantee with other group companies to secure all liabilities of each other.